

# Britannia Industries

6 March 2019

Reuters: BRIT.BO; Bloomberg: BRIT IN

## Pushing The Envelope

We had an interaction with the senior management of Britannia Industries (BRIT) last week. Following are some of the important takeaways from our interaction:

**Higher contribution from product innovation and renovation:** According to the management, BRIT has witnessed a fair degree of success with its innovative and renovated product launches in FY19. Chocolush biscuits, Winkin Cow thick shakes and new cake formats (Swiss Roll, Layer Cake and Brownie) are among the products where the initial market response has been fairly high. It is now looking to accelerate the innovation and renovation momentum further and is aspiring for a 100bps higher contribution (i.e. 5%-5.5%) from new product development in FY20-FY21. Entry into croissant and snack segments is the key innovation agenda to watch out for in the next few months. As the production lines have now stabilised, croissant products should hit the shelves within the next fortnight. Snack segment opportunities are fairly significant and it is looking to make a gradual entry into the salt-based/ extrusion snack segment (category size Rs90bn). BRIT is fairly confident of making a mark in this segment supported by extensive innovation capabilities and best-in-class supply chain capabilities. This move, in our opinion, will also help in strengthening its leadership position in the macro-snacking segment, which is evolving fast in line with the continued change in consumer preferences.

**Category buoyancy expected to return:** The management was fairly confident that the moderation witnessed in BRIT's growth rate to single-digit should see some improvement in 1QFY20 supported by the general elections in India. The slowdown in the recent past can be attributed to the high-base effect and some fatigue seen across markets and regions. The company continues to build its direct distribution presence in the market and, accordingly, contribution from the wholesale segment continues to witness an annual decline in the range of 150bps-200bps (wholesale segment contribution currently stands at 35%-40%). Modern trade growth rate remains fairly attractive, in double digits. The company hopes to maintain this momentum with its innovation agenda planned for FY20-FY21.

**Cost inflation trend is in line with expectation:** Although sugar and wheat prices have witnessed an increase as minimum support prices have been hiked by the government, overall cost inflation in FY20 is still seen in the range of 4%-5%. Skimmed milk powder and milk fat prices are still muted and crude oil-related inflation has also registered a decline. Cost efficiency programmes continue to remain on track and the company expects savings in FY20 to be similar to what was witnessed in recent years. Premiumisation efforts and productivity initiatives should help in supporting low single-digit price hikes and continued expansion in margins.

**Outlook and valuation:** Considering that the above pointers are fairly positive, we believe the company is in a good position to deliver high-teen operating profit growth, which is above consensus estimate. We continue to retain our positive stance on BRIT with an unchanged target price of Rs3,600, implying an upside of 17% from the current market price.

## BUY

**Sector:** FMCG

**CMP:** Rs3,068

**Target Price:** Rs3,600

**Upside:** 17%

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### Key Data

Current Shares O/S (mn)	240.3
Mkt Cap (Rsbn/US\$bn)	737.8/10.5
52 Wk H / L (Rs)	3,472/2,362
Daily Vol. (3M NSE Avg.)	313,245

### Price Performance (%)

	1 M	6 M	1 Yr
Britannia Industries	(3.1)	(0.7)	25.2
Nifty Index	0.7	(4.6)	5.1

Source: Bloomberg

## Exhibit 1: Key new products launched

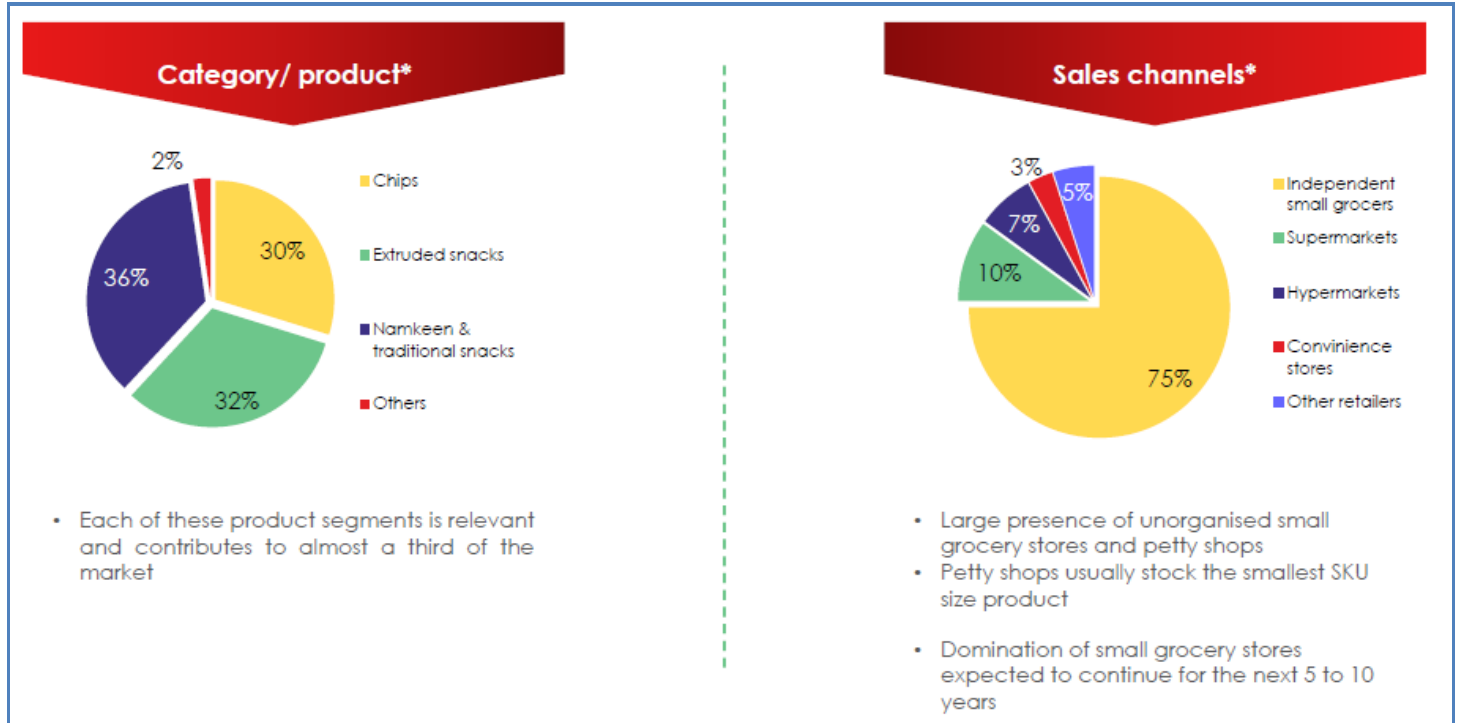
FY	Product innovation/new launches	Segment
2011	Good Day Chip Cookies, Treat O , Nutri Choice	Biscuit
	Acti Mind , Dahi , UHT Milk, Healthy Start - Porridge, Oats , Upma	Non-biscuit
2012	Pure Magic , 50-50 Snackfruits	Biscuit
	Gourmet cheese , Tiger flavoured milk, Multi Grain bread	Non-biscuit
2013	Variants of Time Pass, coffee variant in Bourbon	Biscuit
2014	Campaigns for Good Day , Nutri Choice, Chocolate variant in Jim Jam and Treat	Biscuit
2015	Nutri Choice Heavens, Good Day Chunkies	Biscuit
	Britannia Nut n Raisin Cake	Non-biscuit
2016	Pure Magic Chocolush, Tiger Cashew Cookies	Biscuit
2017	Good Day Choco Chips and Nuts cookies, 50-50 Mathri Masti , Nutri Choice Digestive Zero	Biscuit
	Cake Biscotti	Non-biscuit
2018	Launch of Good Day Wonderfulls, renovation of Treat, revamp of Good Day Chocolate, launch of Pure Magic Deuce – Chocolate and Vanilla	Biscuit
2019	Launch of Good Day Cashew Almond, Chunkies Cookies, Pure Magic Chocolush, Tiger Choco Cookies, whole wheat Vita Marie Gold, renovation of Bourbon, 50-50, Tiger Creams and rusk	Biscuit
	Veg. muffins, wafers, layer cake, brownie and Swiss roll	Non-Biscuit

Source: Nirmal Bang Institutional Equities Research

**Indian snacks market**

Snacking is among the fast growing sub-segment in the Indian processed and packaged food space. At an estimated market size of more than US\$8bn, only 50% is believed to be under the organised segment. India also ranks among the top 5 snacking markets in the world. It is also the second-largest segment after the bakery segment among other processed food segments in India. The snacking market can be further divided into broadly three large categories and BRIT is keen to build its presence in segments other than namkeen and chips with an estimated size of Rs90bn or US\$1.3bn. PepsiCo (Lays, Kurkure & Cheetos), ITC (Bingo) and Haldiram's (Bhujia Sev, Moong Dal) are among the leaders in the Indian snacking market, which is fairly fragmented considering the size of regional and unorganised players. BRIT is seeking to make a gradual entry into this market and build its presence in segments other than namkeen and potato chips. We expect the extrusion sub-segment to witness a growth of 15%-20%, in line with evolving consumer preferences.

**Exhibit 2: Indian snacks market**



Source: Prataap Snacks presentation

**Exhibit 3: Heightened product innovation**



Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: New product categories**

**New Category – Wafers launched..**

**Croissant - Project underway - Launch planned in Q4**

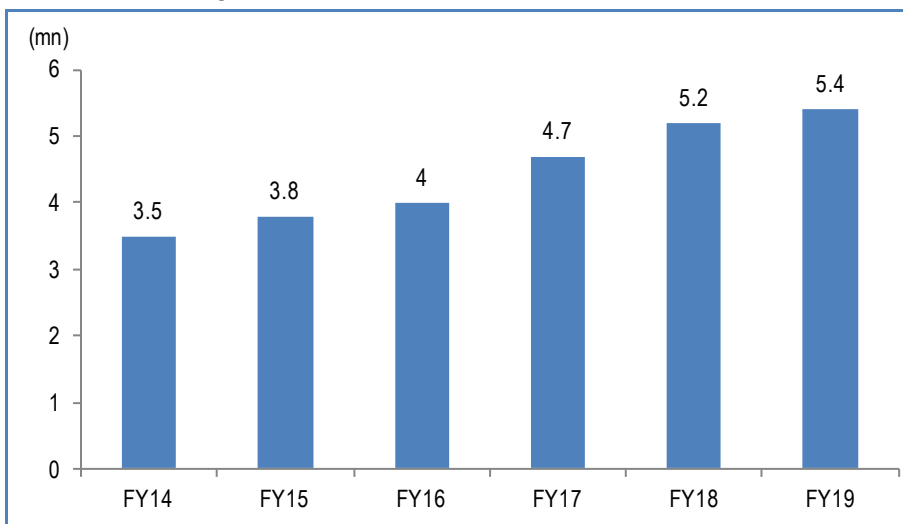
2 Variants:  
• Chocolate  
• Vanilla

**Double digit volume growth in Cheese Milk Collection pilot scaled up**

New Launches in Q3  
1. Milk Shakes in Tetra packs, 2. Dairy whitener Jar

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Widening of distribution base**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials (standalone)

### Exhibit 6: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	90,541	99,140	110,839	126,001	144,108
<b>% Growth</b>	<b>7.8</b>	<b>9.5</b>	<b>11.8</b>	<b>13.7</b>	<b>14.4</b>
COGS	55,887	61,071	65,841	74,485	85,375
Staff costs	3,526	4,016	4,538	5,098	5,584
Other expenses	18,346	19,036	22,908	25,039	27,263
Total expenses	77,759	84,123	93,288	104,621	118,221
EBITDA	12,782	15,017	17,551	21,380	25,887
<b>% growth</b>	<b>5.3</b>	<b>17.5</b>	<b>16.9</b>	<b>21.8</b>	<b>21.1</b>
<b>EBITDA margin (%)</b>	<b>14.1</b>	<b>15.1</b>	<b>15.8</b>	<b>17.0</b>	<b>18.0</b>
Other income	1,505	1,664	1,982	2,281	3,384
Interest costs	55	76	79	84	97
Depreciation	1,193	1,421	1,562	1,878	2,123
Profit before tax (before exceptional items)	13,040	15,184	17,891	21,698	27,050
Exceptional items	-	-	-	-	-
Tax	4,197	5,142	6,176	7,253	9,062
PAT	8,843	10,041	11,715	14,445	17,988
Adj PAT	8,843	10,041	11,715	14,445	17,988
<b>Adj. PAT margin (%)</b>	<b>9.6</b>	<b>10.0</b>	<b>10.4</b>	<b>11.3</b>	<b>12.2</b>
<b>% Growth</b>	<b>7.3</b>	<b>13.5</b>	<b>16.7</b>	<b>23.3</b>	<b>24.5</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	240	240	240	240	240
Reserves	26,724	33,822	40,498	50,047	62,276
Minority interest	26	131	131	131	131
Net worth	26,964	34,062	40,738	50,287	62,516
Total debt	1,246	1,782	1,995	2,205	2,666
Deferred tax liability	(231)	(226)	(226)	(226)	(226)
<b>Total liabilities</b>	<b>27,403</b>	<b>35,174</b>	<b>41,885</b>	<b>51,541</b>	<b>64,035</b>
Gross block	11,796	15,106	19,606	22,606	25,106
Depreciation	1,591	3,011	4,573	6,452	8,575
Net block	10,205	12,094	15,032	16,154	16,531
Intangible assets	1,395	1,362	1,600	1,700	1,850
Capital work-in-progress	301	2,029	2,429	2,829	3,329
Investments	4,869	10,793	13,855	15,750	18,158
Inventories	6,615	6,528	7,181	7,511	9,330
Debtors	1,792	3,046	2,420	3,103	3,214
Cash	1,208	1,864	1,982	7,101	12,643
Loans & advances	9,682	10,792	13,855	16,380	19,022
Other current assets	2,929	2,056	1,663	3,150	3,603
Total current assets	23,392	31,512	33,197	44,176	55,449
Creditors	7,573	9,941	9,541	12,498	12,763
Other current liabilities & provisions	3,213	3,813	3,381	3,843	4,467
Total current liabilities	13,454	16,480	18,907	23,145	25,084
Net current assets	9,938	15,032	14,290	21,030	30,365
<b>Total assets</b>	<b>27,403</b>	<b>35,173</b>	<b>41,885</b>	<b>51,541</b>	<b>64,035</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PAT	8,846	10,040	11,715	14,445	17,988
Depreciation	1,193	1,421	1,562	1,878	2,123
Other income	(1,505)	(1,664)	(1,982)	(2,281)	(3,384)
(Inc.)/dec. in working capital	(2,120)	1,765	2,117	3,059	(261)
<b>Cash flow from operations</b>	<b>6,414</b>	<b>11,561</b>	<b>13,412</b>	<b>17,102</b>	<b>16,466</b>
Capital expenditure (-)	(2,588)	(5,038)	(4,900)	(3,400)	(3,000)
<b>Net cash after capex</b>	<b>3,826</b>	<b>6,524</b>	<b>8,512</b>	<b>13,702</b>	<b>13,466</b>
Dividends paid (-)	(2,400)	(3,000)	(3,600)	(4,080)	(4,800)
DDT paid (-)	(489)	(600)	(720)	(816)	(960)
Inc./(dec.) in investments	3,015	(5,924)	(3,062)	(1,895)	(2,407)
<b>Cash from financial activities</b>	<b>(2,733)</b>	<b>(3,028)</b>	<b>(4,002)</b>	<b>(4,622)</b>	<b>(5,223)</b>
Opening cash balance	877	1,208	1,864	1,982	7,101
Closing cash balance	1,208	1,864	1,982	7,101	12,643
Change in cash balance	331	657	117	5,119	5,542

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	36.9	41.8	48.8	60.2	75.0
Book value	112.4	141.9	169.7	209.5	260.5
DPS	10.0	12.5	15.0	17.0	20.0
<b>Valuation (x)</b>					
P/sales	8.9	7.7	6.7	5.9	5.2
EV/sales	4.5	7.6	6.6	5.8	5.0
EV/EBITDA	31.5	50.0	41.9	34.1	27.9
P/E	91.5	75.7	63.5	51.5	41.4
P/BV	15.0	22.3	18.3	14.8	11.9
<b>Return ratios (%)</b>					
RoCE	46.0	42.5	40.7	41.0	40.4
RoE	37.0	32.9	31.3	31.7	31.9
<b>Profitability ratios (%)</b>					
Gross margin	38.3	38.4	40.6	40.9	40.8
EBITDA margin	14.1	15.1	15.8	17.0	18.0
EBIT margin	12.8	13.7	14.4	15.5	16.5
PAT margin	14.2	15.1	15.9	16.9	18.3
<b>Liquidity ratios (%)</b>					
Current	1.7	1.9	1.8	1.9	2.2
Quick	1.2	1.5	1.4	1.6	1.8
<b>Solvency ratio (%)</b>					
Debt-to-equity	-	0.1	-	-	-
<b>Turnover ratios</b>					
Total asset turnover (x)	2.2	1.9	1.8	1.7	1.6
Fixed asset turnover (x)	8.6	7.0	6.3	6.6	7.3
Inventory days	36	39	38	36	36
Debtor days	7	9	9	8	8
Creditor days	50	52	54	54	54

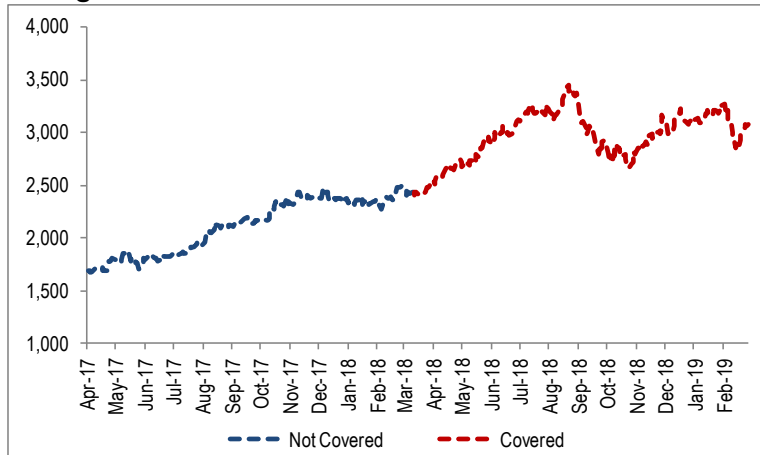
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 March 2018	Buy	4,867	5,850
18 May 2018	Buy	5,477	6,350
8 August 2018	Buy	6,200	7,120
14 November 2018	Buy	5,812	6,700
12 February 2019*	Buy	3,108*	3,600*
6 March 2019	Buy	3,068	3,600

\*Stock split from FV Rs2/share to Rs1/share on 29<sup>th</sup> November, 2018.

## Rating chart



## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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